Chapman & Verwey
CHARTERED ACCOUNTANTS

Financial Statements of

LEAF RAPIDS TOWN PROPERTIES LTD.

Year ended March 31, 2000

Chapman & Verwey
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Provincial Auditor

We have audited the balance sheet of Leaf Rapids Town Properties Ltd. as at March 31, 2000 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Chapman & Verwey

Chartered Accountants

Portage la Prairie, Manitoba

September 6, 2000

LEAF RAPIDS TOWN PROPERTIES LTD.

Balance Sheet

March 31, 2000, with comparative figures for 1999

	2000	1999
Assets		
Current assets:		
Cash and short-term deposits	$ 1,482,495	$ 1,461,531
Accounts receivable	45,836	50,063
Prepaid expenses and supplies	54,055	29,242
	1,582,386	1,540,836
Developed lots held for resale (note 2(c))	1	1
Capital assets (note 3)	296,286	1,445,494
	$ 1,878,673	$ 2,986,331
Liabilities and Shareholder's Equity		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 163,601	$ 133,949
Deferred revenue	34,831	19,882
GST payable	4,736	–
	203,168	153,831
Long-term debt (note 5)	1,498,577	1,498,577
	1,701,745	1,652,408
Shareholder's equity:		
Capital stock (note 4)	2,621,100	2,621,100
Deficit	(2,444,172)	(1,287,177)
	176,928	1,333,923
Contingency (note 11)		
	$ 1,878,673	$ 2,986,331

See accompanying notes to financial statements.

On behalf of the board:

Director

Director

LEAF RAPIDS TOWN PROPERTIES LTD.

Statement of Operations and Deficit

Year ended March 31, 2000, with comparative figures for 1999

	2000	1999
Revenue:		
Rental income	$ 272,201	$ 286,201
Cost recoveries	500,133	592,495
	772,334	878,696
Expenses:		
Amortization	66,389	56,434
Bad debts	52,097	922
Insurance	25,201	27,286
Janitorial	60,388	53,161
License fee	–	8,195
Professional fees	7,293	27,746
Property taxes	73,456	99,850
Rentals	14,157	21,400
Repairs and maintenance	90,741	119,173
Salary and benefits	138,516	180,263
Snow removal	7,419	3,500
Sundry	5,848	5,813
Supplies and office expenses	24,499	36,031
Telephone	5,862	5,790
Utilities	92,269	94,014
Vehicle and travel	12,076	22,238
Administration fees and expenses	47,923	43,655
	724,134	805,471
Income from operations	48,200	73,225
Other (expense) revenue:		
Corporate capital tax	(8,193)	(8,193)
Interest (expense) revenue, net (note 6)	(11,499)	31,738
Consulting fees	(938)	(8,107)
Other	3,845	(10,783)
	(16,785)	4,655
Income before write down of capital assets	31,415	77,880
Write down of capital assets to net realizable value (note 10)	(1,188,410)	–
Net (loss) income	(1,156,995)	77,880
Deficit, beginning of year	(1,287,177)	(1,365,057)
Deficit, end of year	$(2,444,172)	$(1,287,177)

See accompanying notes to financial statements.

LEAF RAPIDS TOWN PROPERTIES LTD.

Statement of Cash Flows

Year ended March 31, 2000, with comparative figures for 1999

	2000	1999
Cash provided by (used in):		
Operating activities:		
Net (loss) income for the year	$(1,156,995)	$ 77,880
Items not involving cash:		
Write-down of capital assets to net realizable value (note 10)	1,188,410	–
Amortization	66,389	56,434
	97,804	134,314
Net change in non-cash operating working capital:		
Accounts receivable	4,227	(6,897)
Prepaid expenses and supplies	(24,813)	82,266
Accounts payable	44,601	(203,280)
GST payable	4,736	–
	28,751	(127,911)
	126,555	6,403
Investing activities:		
Additions to capital assets	(105,591)	(19,665)
Proceeds on disposal of land and building	–	200,000
	(105,591)	180,335
Increase in cash and short term deposits	20,964	186,738
Cash and short-term deposits, beginning of year	1,461,531	1,274,793
Cash and short-term deposits, end of year	$ 1,482,495	$ 1,461,531
Additional information:		
Interest paid	$ 22,866	$ 111,448

See accompanying notes to financial statements

LEAF RAPIDS TOWN PROPERTIES LTD.

Notes to Financial Statements

Year ended March 31, 2000

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1. **Nature of operations:**

Leaf Rapids Town Properties Ltd. was incorporated in 1971 under The Manitoba Companies Act. It was charged with the responsibility for the planning, design and development of the community of Leaf Rapids.

Since the completion of the development, the Corporation has managed, leased and operated its physical assets and properties in Leaf Rapids. On February 13, 1992, the Corporation assumed management responsibility for the Whitewater Inn and continued operating it until it was sold March 31, 1998.

2. **Significant accounting policies:**

The Corporation's financial statements have been prepared using generally accepted accounting principles. The significant accounting policies are as follows:

(a) Management estimates:

The preparation of financial statements in accordance with general accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

(b) Capital assets:

Capital assets are stated at cost, less accumulated amortization and write downs. Certain capital assets were written down to their net realizable value in 2000 as explained in note 10.

Amortization is provided on a straight-line basis over the estimated remaining useful lives of the assets. Current year's amortization was calculated using the previous estimate of the useful lives of the assets. At year end, management revised their estimate of the useful lives of the assets to reflect current information (note 8). The estimated useful lives of the assets used in determining amortization for the current year and the estimates to be used in future years are as follows:

	Current	Future
Town Centre Building – retail and common areas	40 years	4 years
Commercial Building	5 years	4 years
Equipment	3-10 years	3-10 years

(c) Developed lots:

Developed lots held for resale have been written down by $225,645 to a nominal value of $1. Property taxes and any other related costs are charged to operations.

3. Capital assets:

	Cost	Accumulated Write Down	Accumulated Amortization	2000 Net Book Value	1999 Net Book Value
Commercial Properties:					
Land	$ 478,765	$ 336,658	$ –	$ 142,107	$ 478,765
Building	1,505,755	497,799	1,001,257	6,699	522,133
Equipment	14,246	–	6,540	7,706	–
Non-Commercial Properties:					
Land	414,692	414,692	–	–	–
Building	4,701,479	–	4,701,479	–	–
Other Property:					
Land	82,301	32,301	–	50,000	82,301
Building	857,752	321,652	536,100	–	343,096
Equipment	173,896	–	84,122	89,774	19,199
	$ 8,228,886	$ 1,603,102	$ 6,329,498	$ 296,286	$1,445,494

4. Capital stock:

	2000	1999
Authorized:		
40,000 common shares, not to exceed $40,000		
26,210 8.15% non-cumulative redeemable preferred voting shares, not to exceed $2,621,000, with a redemption price of $100 per share		
Issued and fully paid:		
100 common shares	$ 100	$ 100
26,210 preferred shares	2,621,000	2,621,000
	$ 2,621,100	$ 2,621,100

Ownership: All issued shares are held by the Minister of Finance, Government of the Province of Manitoba.

5. Long-term debt:

Long-term debt payable to the Province of Manitoba consists of $1,498,577 in 10% income debentures, secured by a floating charge on all assets of the corporation. Annual installments against this debt are determined based on one-half of the prior year's cash flow from operations. Cash flow is defined as net income from operations, plus amortization expense, less the installment amount paid in the year.

Interest expense is recorded as an accrual each year end, based on the required annual installment that becomes due and payable subsequent to each fiscal period. If the required annual installment exceeds 10% of the outstanding long-term debt, the amount in excess of 10% is applied against the outstanding principal and the remainder is recorded as interest expense. If the required annual installment is less than 10% of the outstanding long-term debt, the full amount of the installment is recorded as interest expense. The difference between that recorded interest expense and 10% of the debt is not recorded and is non-cumulative. For the year ended March 31, 2000, the accrued interest expense amounted to $74,939 and the non-cumulative interest portion of the installment payment amounted to $74,919.

6. Interest (expense) revenue – net:

	2000	1999
Interest revenue	$ 63,440	$ 54,604
Interest expense	(74,939)	(22,866)
	$ (11,499)	$ 31,738

7. Related party transactions:

As stated in note 4, all issued shares of the Corporation are held by the Minister of Finance, Government of the Province of Manitoba. In addition to the issued shares held, the long-term debt described in note 5 and the interest income and expense described in note 6, the Corporation has the following balances with the Government of the Province of Manitoba and its agencies reflected in these financial statements as at March 31, 2000. These transactions and balances are in the normal course of operations and are measured at the exchange amount agreed to by the related parties.

	2000	1999
Short-term deposits	$ 1,345,997	$ 1,284,402
Accounts receivable	9,643	7,721
Accounts payable	89,511	33,458

8. Economic dependence:

The ongoing viability of the Corporation depends on the ongoing successful operation of the Ruttan Mine or an appropriate alternative. Based on current information, existing ore reserves are expected to continue for another four years. The future of the mine beyond four years remains uncertain. Management has written down certain capital assets (note 10) to reflect this uncertainty and as indicated in note 2(b) is amortizing buildings over four years.

9. Financial instruments:

a) Credit risk:

The Corporation is exposed to credit risk on the accounts receivable from its customers. An allowance for doubtful accounts has been established by the Corporation, based upon factors surrounding the credit risk of specific customers, historical trends and other information.

b) Fair value:

Due to the short-term nature of all financial instruments other than long-term debt, the carrying values as presented in the financial statements are reasonable estimates of fair value. Management has estimated fair value by reference to established financial markets. As is true for all estimates, actual fair value could differ from this estimate, and if so, any difference would be accounted for in the period in which it becomes known. For long-term debt, it is not practical within constraints of timeliness or cost to determine the fair value with sufficient reliability because the instruments are not traded in an organized financial market.

10. Write down of capital assets to net realizable value:

During this year, the Corporation determined the net realizable value of the Town Centre land to be $100,000, the equivalent of the maximum price it would receive should it sell the land. Accordingly, the Town Centre land was written down by $123,996. The industrial park land, the mobile home park land, the Town Centre buildings and the commercial buildings have been written down to estimated future cash flows from operations. The cost of these assets has been written down by $1,064,414.

11. Contingency:

The Year 2000 Issue arises because many computerized systems use two digits rather than four digits to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties have been fully resolved.

12. Comparative figures:

Certain 1999 comparative figures have been reclassified in order to conform with the financial statement presentation adopted for 2000.